

State of Alaska FY2003 Governor's Operating Budget

Department of Natural Resources Agriculture Revolving Loan Program Administration BRU/Component Budget Summary

BRU/Component: Agriculture Revolving Loan Program Administration

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

Promote and encourage development of an agriculture industry in the state.

The Board of Agriculture and Conservation administers the Agricultural Revolving Loan Fund (ARLF) through the Director of Agriculture. The ARLF works to create agricultural opportunities through consistent and stable agricultural loan programs. The ARLF agricultural assets are managed to encourage privatization, maximize return to the state, and promote economically viable development.

Component Services Provided

The Board of Agriculture and Conservation provides various types of loans, including farm development, chattel, operating, irrigation, product processing, and clearing. The Board of Agriculture and Conservation also provides installment credit for the purchase of ARLF assets.

The main responsibilities of the Agricultural Revolving Loan Fund include: Processing new loan application/modification requests; closing loans/modifications; servicing loans/leases; servicing account delinquencies, collections, defaults, and facilitating settlements; providing asset management for real properties, livestock, and equipment; providing inspections and protection of ARLF collateral; and responding to requests by the public, legislature, and state agencies.

Component Goals and Strategies

The goal of the Board of Agriculture and Conservation is to provide direct, moderate interest rate loans to borrowers with good production history, assist the agricultural community, and expand production of Alaska grown products. An additional goal is to increase loan volume and make funds available for agricultural development and expansion in Alaska.

- Finance new farms as a result of our ongoing agricultural land disposal program.
- Service the ARLF \$27.9 million portfolio with a clientele of 158 borrowers and 176 accounts.
- Manage 20 asset properties until disposal by sale or lease.
- Process approximately 36 new loan applications with an expected \$2.5 million in new loans.
- Work with the Attorney General's Office through the director on an annual average of 8 cases involving delinquent borrowers to minimize loss through aggressive collection action.
- Coordinate a minimum of eight Board of Agriculture and Conservation meetings for a seven -member board.
- Provide billing and receipts for \$4.2 million cash payments from loans and leasing of ARLF assets.
- Attend agricultural lending functions and forums with other industry representatives.
- Continue servicing of the ARLF portfolio in order to maintain the present low percentage of loan delinquencies.
- Pursue phase III and IV regulatory changes to meet the needs of the agricultural community and industry and implement recent statutory revisions.
- Continue operation oversight of the Matanuska Maid Creamery and Mt. McKinley Meats operations. These facilities play a major role in the survival of the livestock industry in Alaska and operate with a business orientation. We continue to protect the interest of Alaska milk and meat producers.
- Expand the agricultural base by preparing new land disposal packages and property lease opportunities. This will ultimately reduce contractual costs. The property will be back in production and the Board of Agriculture and Conservation will not be required to maintain it in a saleable condition. A two-year Agricultural Land Disposal Capital Project provides funding. A Loan/Collection Officer position oversees an Agricultural Land Sale and disposal of the

Agricultural Revolving Loan Fund land asset inventory, creating sale revenue. Our land disposal plan for fiscal year 2003 includes six parcels of land in the Southcentral, Region, aggregating over 830 acres with an estimated new contract receivables value of \$1.1 million dollars. More properties may be offered when we receive title and accomplish the necessary surveys and appraisals.

Key Component Issues for FY2002 – 2003

Erosion of ARLF funds jeopardizes the continued operation of this project since funding is being used for program-wide division operation. The Board of Agriculture and Conservation through the Agricultural Revolving Loan Fund provides moderate interest rate loans for agricultural development. Conventional financing and federal loan programs are not generally available to agriculture in Alaska.

On-going servicing of the ARLF portfolio will help to maintain the present low percentage of loan delinquencies.

Regulatory changes have been made or are in process to implement recent statutory revisions and to streamline the application process.

Matanuska Maid operates under the direction of the Creamery Corporation Board and is part of a highly competitive industry. Mat Maid creates jobs and revenue in the Alaska economy by marketing Alaska produced items. Using out-of-state raw milk to supplement the local product and a diverse market line, Matanuska Maid makes it possible for state producers to compete with industries in the Lower 48. This plant is critical to the survival of 12 dairy farm businesses, 45 plant employees, and all the related industries in the Interior and Southcentral Alaska, some with over 40 years of operation history in Alaska. These producers are economically stable and viable, but continue to be dependent on Matanuska Maid.

Major Component Accomplishments in 2001

The delinquency rate of the ARLF portfolio has continued to be consistently low. Many cases in default have been settled and new buyers/producers have been found for repossessed property. Settlements of defaulted loans are accomplished in coordination with the Attorney General's Office through a Reimbursable Services Agreement with the Department of Law.

Low risk loans to borrowers with good repayment production history have been provided to develop industry stability.

Development of new resource opportunities in the agriculture industry has been expanded.

In FY 01 the Division of Agriculture disposed of 9 parcels of ARLF agricultural land aggregating 6,445 acres, resulting in revenue of \$2.25 million dollars.

In FY 02 we have offered or are in the process of offering ARLF agricultural land in the South Central and Northern Region of the state; over 2,350 acres of agricultural land with an estimated new contract receivables value of \$1.7 million dollars to the Agricultural Revolving Loan Fund are included.

Statutory and Regulatory Authority

AS 03.10

Key Performance Measures for FY2003

Measure:

The loan to equity ratio in the Agricultural Revolving Loan Fund.
Sec 115(b)(1) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

ARLF Loan to Equity Ratio:

September 00 - 28.9% - ratio is 1:3.46

September 01 - 27.95% - ratio is 1:3.58

The Board of Agriculture and Conservation has expressed interest in increasing the amount of funds loaned to generate additional income for the fund. We are beginning to see a slight increase in this ratio, which we hope to reverse with more loans being issued with the proceeds from sold repossessed property.

No specific target has been set as concerns for the cash flow will limit the number of loans that can be issued.

As of September 30, 2001 the numbers are:

Outstanding ARLF loans - \$7,740,395

Equity \$ 27,693,038

Benchmark Comparisons:

There is no benchmark for this measure.

Background and Strategies:

Due to rapid development policies twenty years ago the Agricultural Revolving Loan Fund loaned money to borrowers who were unable to repay. A large repossessed portfolio resulted which required increased work to maintain the assets.

We continue to sell these assets at a responsible rate thus bringing them back into production. This helps maintain the fund balance through liquid assets and decreases maintenance responsibilities, allowing us to focus on lending and program enhancement.

Agriculture Revolving Loan Program Administration

Component Financial Summary

All dollars in thousands

	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	264.1	270.7	295.0
72000 Travel	15.8	30.4	32.4
73000 Contractual	283.3	394.9	404.6
74000 Supplies	1.8	11.9	11.9
75000 Equipment	0.0	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	565.0	707.9	743.9
Funding Sources:			
1021 Agricultural Loan Fund	514.4	653.7	688.6
1061 Capital Improvement Project Receipts	50.6	54.2	55.3
Funding Totals	565.0	707.9	743.9

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
None.		0.0	0.0	0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0	0.0	0.0
Restricted Revenues						
Capital Improvement Project Receipts	51200	50.6	54.2	54.2	55.3	55.6
Restricted Total		50.6	54.2	54.2	55.3	55.6
Total Estimated Revenues		50.6	54.2	54.2	55.3	55.6

Agriculture Revolving Loan Program Administration**Proposed Changes in Levels of Service for FY2003**

The new Board of Agriculture and Conservation (BAC) has identified additional funding needs for travel, meeting preparation, advertising, sale preparation and disseminating general information to the public. This increment enables the component to keep up with these increases. Additional personal services are needed to meet the salary needs of existing staff.

Summary of Component Budget Changes**From FY2002 Authorized to FY2003 Governor***All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	707.9	707.9
Adjustments which will continue current level of service:				
-Year 3 Labor Costs - Net Change from FY2002	0.0	0.0	6.0	6.0
Proposed budget increases:				
-Increased Operating Costs of the Ag Revolving Loan Fund Program	0.0	0.0	30.0	30.0
FY2003 Governor	0.0	0.0	743.9	743.9

Agriculture Revolving Loan Program Administration**Personal Services Information**

Authorized Positions		Personal Services Costs		
	<u>FY2002</u>	<u>FY2003</u>		
	<u>Authorized</u>	<u>Governor</u>		
Full-time	5	5	Annual Salaries	210,102
Part-time	0	0	COLA	4,465
Nonpermanent	0	0	Premium Pay	1,639
			Annual Benefits	81,755
			<i>Less 0.99% Vacancy Factor</i>	(2,961)
			Lump Sum Premium Pay	0
Totals	5	5	Total Personal Services	295,000

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant II	1	0	0	0	1
Administrative Clerk II	0	0	0	1	1
Loan/Collection Off I	0	0	0	3	3
Totals	1	0	0	4	5